

Message Text

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51

ACTION EA-14

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 EUR-25 INT-08 AGR-20

STR-08 NSC-07 SS-20 DRC-01 /180 W

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R 040801Z APR 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 0238

UNCLAS HONG KONG 3798

E.O. 11652: N/A

TAGS: EGEN HK

SUBJECT: LAND POLICY: A FURTHER SWING AWAY FROM LAISSEZ-FAIRE

REF: (A) A-79 (3-23-73); (B) A324 (12-18-73)

SUMMARY: IN A FURTHER ATTEMPT TO ATTRACT HIGHER TECHNOLOGY, LAND-INTENSIVE INDUSTRY, THE HKG IS CONTEMPLATING ESTABLISHING INDUSTRIAL PARKS IN THE NEW TERRITORIES AND RENTING FACTORY SITES AT FAVORABLE TERMS TO INVESTORS IN APPROVED LINES OF PRODUCTION. THIS SHOULD BE OF INTEREST TO POTENTIAL U.S. INVESTORS WHO WISH TO PRODUCE FOR THE SEA MARKET. END SUMMARY.

1. HONG KONG'S INDUSTRY HAS BEEN BUILT ON THE PRODUCTION OF LIGHT CONSUMERS' GOODS CONCENTRATING UPON LABOR-INTENSIVE PRODUCTION METHODS. TEXTILES AND GARMENTS STILL ACCOUNT FOR HALF OF ALL EXPORTS, WHILE PLASTIC TOYS AND FLOWERS AND ELECTRONIC APPLIANCES ALSO HAVE LARGE SHARES. RAPIDLY RISING WAGE RATES HAVE MADE THIS TYPE OF PRODUCTION INCREASINGLY COSTLY AND THE HKG HAS BEEN AWARE FOR A NUMBER OF YEARS THAT LOCAL INDUSTRY MUST REGEAR TO MORE CAPITAL-INTENSIVE METHODS. THE CHIEF OBSTACLE TO INVESTMENT IN HEAVIER INDUSTRY HAS BEEN THE EXTRA-
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ORDINARILY HIGH COST OF LAND -- HONG KONG'S SCARCEST

RESOURCE. UNTIL 1973, ALL CROWN LAND WAS MADE AVAILABLE, ON A LEASEHOLD BASIS, TO THE HIGHEST BIDDER. THIS EFFECTIVELY SHUT OUT HEAVIER INDUSTRY BECAUSE THE DEVELOPERS OF FLATTED FACTORIES (MULTI-STORY FACTORY BUILDINGS LET OUT TO SMALL PRODUCERS) COULD ALWAYS OUTBID OTHER RIVALS.

2. IN EARLY 1973, THE POLICY WAS MODIFIED SLIGHTLY IN FAVOR OF INDUSTRIAL INVESTORS. CERTAIN TRACTS WERE PUT UP FOR AUCTION SUBJECT TO SEVERE RESTRICTIONS ON THE USE TO WHICH THE LAND COULD BE PUT (REF A). THE PRINCIPAL ACHIEVEMENT OF THIS POLICY WAS THE DECISION OF THE U.S. FIRM, OUTBOARD MARINE, TO CONSTRUCT A PLANT IN HONG KONG. A FURTHER MODIFICATION WAS ANNOUNCED BY THE GOVERNOR, IN DECEMBER 1973 (REF B), UNDER WHICH THE HKG WOULD ABANDON THE AUCTION SYSTEM ENTIRELY, FOR VERY DESIRABLE INVESTMENTS, AND ENTER INTO "PRIVATE TREATIES" FOR THE SALE OF LAND ON FAVORABLE TERMS. DOW HAS AGREED TO BUILD A PETROCHEMICAL PLANT UNDER THIS ARRANGEMENT.

3. ON APRIL 3, 1974, THE DEPUTY SECRETARY FOR ENVIRONMENT, MR. G. BARNES, ANNOUNCED THAT THE HKG IS CONSIDERING ESTABLISHING INDUSTRIAL PARKS AT YUENLONG AND TAIPO (WHERE AN EXTENSIVE LAND RECLAMATION PROJECT IS IN TRAIN) AND RENTING FACTORY SITES TO NEW, LAND-INTENSIVE INDUSTRIES "AT ATTRACTIVE PRICES." THE DEVELOPMENT AND PREPARATION OF THESE PARKS WILL BE UNDERTAKEN BY PRIVATE DEVELOPERS WHO WILL THEN LEASE THE LAND BACK TO THE HKG WHICH, IN TURN, WILL RENT OUT INDIVIDUAL TRACTS.

4. COMMENT: HONG KONG IS, IN PART, TAKING A PAGE OUT OF SINGAPORE'S BOOK. THERE IS NO REPEAT NO INDICATION, HOWEVER, THAT THE HKG IS PREPARED TO GO AS FAR AS TAX HOLIDAYS OR SUBSIDIES TO ATTRACT DESIRED INVESTMENTS. IN THEORY, THE NEW POLICY IS OPEN TO ALL COMERS, INCLUDING LOCAL INVESTORS, BUT THERE ARE FEW LOCAL FIRMS WITH EXPERIENCE IN THESE LINES OF PRODUCTION. THE TARGET OF THE POLICY IS THUS, FIRMS IN THE U.S.,
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EUROPE AND JAPAN.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TECHNICAL ASSISTANCE, POLLUTION, LAND REFORMS, ECONOMIC PROGRAMS, INDUSTRIAL PLANTS, INVESTORS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 APR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974HONGK03798
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740075-1191
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740466/aaaacief.tel
Line Count: 109
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: (A) A-79 (3-23-73); (B) A324 (12-18-, 73)
Review Action: RELEASED, APPROVED
Review Authority: shawdg
Review Comment: n/a
Review Content Flags:
Review Date: 22 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 MAY 2002 by bryansd0>; APPROVED <17 DEC 2002 by shawdg>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: LAND POLICY: A FURTHER SWING AWAY FROM LAISSEZ-FAIRE
TAGS: EGEN, HK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005